

UMVOTI MUNICIPALITY



FINAL BUDGET 2019/2020

EXECUTIVE SUMMARY FOR UMVOTI MUNICIPALITY FOR THE 2019/2020 FINAL BUDGET

The following is the executive summary for the Adjusted Medium Term Revenue and Expenditure Framework as prepared and tabled by the Chief Financial Officer.

1. Operating Revenue & Budget Adjustments

2. The revenue estimates on rates and refuse amounts to **R42.9million (7%) and R9.6million (7% increase)** respectively. More details on rates are contained in rates tariff breakdown, **see annexure 01** rates randage per property category.

Property rates and refuse removal budget has been increased by 7% in due consideration of the budget imperatives, which necessitated an increase slightly above the recommended rate as per MFMA circular no. 94. The proposed increases takes into cognizance the budgetary constraints and the refuse removal services are costing far above the proposed tariff. Information is being collated in order to calculate cost reflective tariff to ascertain actual costs of delivering the service.

3. Electricity revenue proposed budget amounts to **R80.3million** that is an increase of 13.07% as per the NERSA guidelines. **see annexure of electricity tariffs**
4. The proposed budget on rental facilities amounts to **R4.7million**, the municipality is anticipating to receive an estimated **R3.6 million** from the rental of biological assets and balance will be generated through other Council facilities, i.e. Council houses, **see annexure rental agreement on Council houses and forestry rental workings annexure 04.**
5. Interest earned on outstanding debtors proposed budget amounts to **R2.4million**, it has been reduced by half of the approved adjustment budget amount of 2018/19. Considerations of amnesty programme where the interest and 50% debt is waived were taken into account in determining the budget estimates hence a huge a reduction thereof.
6. The municipality also acknowledges that the collection rate continues to drop and thus has necessitated vigorous implementation of costs reduction plan in specific expenditure items which are not essential in service delivery and it is demonstrated through an overall downward budget adjustment compared to approved budget of 2018/19 and prior years. There are numerous programmes which are underway that seeks to improve the collections levels, i.e. Development of Revenue enhancement strategy and implementation plan, the appointed Service Provider has since completed the project and implementation developed and currently implemented. The customer awareness campaigns is on-going, the appointment of Credit Control personnel and rolling out of training of credit control personnel in order to address capacity gaps.
7. Fines, penalties and forfeits proposed budget amounts to **R205 430**, the revenue estimates are substantiated by a number of **planned programmes of the traffic personnel** that necessitated such upward adjustment compared to the approved adjustment budget.
8. The licenses and permits proposed budget of **R3.5million** remain the same if compared with approved adjustment budget. Revenue anticipated is based on actual collections received to date.

9. Transfers and subsidies – operational budget amounts to **R158.9million** and it is in accordance with DORA gazette.
10. Transfers and subsidies – capital budget has a budget of **R29.8million (MIG)** as gazette in the 2019/20 DORA.
11. Other capital grants budgeted for, it is a roll-over of **R4.5million** Urban Renewal grant

EXPENDITURE BY TYPE

12. The employee related costs and Council remuneration costs proposed budget amounts to **R131.4million**. The proposed employee related budget takes into consideration the **6.5%** increment of salaries as per collective agreement, filing of the vacant posts resulted from retirements, staff death. The municipality acknowledges that the employee related costs accounts for **41%** of the total operating budget, which is above the National Treasury norm of **25% to 40%** as contained in the MFMA circular no.71. Huge salaries costs remains a challenge and adversely impacts on financial health of the municipality and depleted cash coverage ratio. The municipality is contemplating to review the current EPWP rate whereupon the municipality has budgeted **R12million** in 2019/20, which is excessively far above the current grant allocation of **R1.6million**. Breakdown of salaries is attached as **annexure 5**
13. Remuneration for Councilors proposed budget amounts to **R10.3million**, and the budget projections were benchmarked with the approved upper limits.
14. Debt impairment proposed budget remain the same as approved adjustment budget of **R12.6million**.
Debt Impairment budget remain the same, it is based on **5%** provision of doubtful debts by end of financial year
15. Depreciation proposed budget amounts to **R28.4million**. The depreciation estimates incorporates the findings made on asset conditional assessment report and the recently developed repairs and maintenance plan.
16. Eskom Bulk purchases proposed budget amounts to **R59.5million**, this is based on the recent approved NERSA rate of **15.63%** applicable in 2019/20. The excessive increase in bulk purchase will attribute to enormous pressure on Council service delivery programmes. The electricity losses remains a challenge and poses as a threat on the financial sustainability of the municipality.
17. The budget allocation of other materials amounts to **R3.8million** and have been adjusted downward from approved adjustment budget in line with cost containment measures.
18. Contracted services proposed budget amounts to **R49.5million**, this line item mainly constitute operational grants and other outsourced services. It has significantly decreased compared to approved adjustment budget merely because of Housing Development budget of R31million appropriated in 2018/19 but has since been reduced to **R3million** in 2019/20 budget. Furthermore, taking into account Provincial Treasury comments the municipality has drastically reduced the budget.

19. Other expenditure proposed budget amounts to **R26.2million** and the expenditure line items have been reduce in light of cost containment measures.

Operating Surplus/Deficit

20. The municipality acknowledges that the proposed budget has a deficit of **R24.6million** inclusive of non-cash items, i.e. Depreciation of **R28million** and Debt impairment of **R12.6million** amounting to **R41million** in totality. When adding back non-cash items, the municipality budget remains with a positive amount of **R16.9million**

REMEDIAL PLAN: The municipality will ensure that all cash based budgeted items are adequately provided for and also notwithstanding the fact that a concrete plan has been developed which will enable the municipality to ring-fence and build reserves in the near future for asset renewal programs and repairs and maintenance. However, for now, it is highly unlikely to set aside monies for depreciation and other non-cash items due to budgetary constraints. The municipality is ring-fencing VAT monies as a start of building reserves and additional monies that will flow from vigorous revenue collection initiatives would be partly set aside for Capital Replacement Reserves. The municipality anticipates a significant improvement that will enable the municipality to maximize its collection levels, addresses historical debts, and improve cash coverage ratio thus will ultimately results in adequate budgeting for depreciation and provisions. It must be noted that other budgeted items are adequately funded and shall be monitored through a monthly procurement plan report, cash flow management report and departmental scorecards.

Capital Expenditure and Funding

21. Financial implications for the **Capital Expenditure** are contained in the budget tables and totaling to **R34.3million**, broken down to **R29.8million (MIG)** and **R4.5million (Urban renewal grant roll-over budget)**. The internally funded programmes have been drastically reduced in consideration of the budgetary constraints and amounts to **R7.2million**.

Internally funded capital programmes and are mainly service delivery projects, such as plant and equipment, vehicles and office equipment.

Repairs and maintenance

22. The budgeted Repairs and maintenance budget amounts to **R8million** and thus translates to **2.6%** of the total operating budget. The municipality acknowledges the fact that it is significantly below the recommended norm of **8%**. Once again, under budgeting on repairs and maintenance is as a result of budget constraints and the municipality is relying on the revenue enhancement programmes and applications made to COGTA for funding. The repairs and maintenance plan has been developed and requires huge funding in order to address all shortfalls identified and the funding is being sourced in that regard. **See the attached annexure of the maintenance plan**